BY REBECCA ZICARELLI

New England's New Frontier

Mexico

This Region Could Have a Larger Stake in the NAFTA Pie, Experts Say

Remember H. Ross Perot, who ran for president as an independent in 1992, with charts, graphs, and talk of "a giant sucking sound?" Perot's dire warnings about the North American Free Trade Agreement, or NAFTA, made for an exciting election 12 years ago, but Perot missed the mark with his prophesies about NAFTA.

Under NAFTA, the U.S., Canada, and Mexico began removing trade and investment barriers in 1994. A decade later, North America is the world's largest free trade area, with a total gross domestic product of $11.4 trillion. U.S. exports to Canada grew from $96.5 billion to $152.9 billion; exports to Mexico grew from $51.1 billion to $107.2 billion.

According to "NAFTA, a Decade of Strengthening a Dynamic Relationship," a joint publication by the US, Canadian, and Mexican trade offices, NAFTA "has been instrumental in making North America one of the most active trading regions in the world. The NAFTA countries now account for almost 19 percent of global exports and 25 percent if imports."

And with efforts under way to improve the environmental and labor provisions of NAFTA, the trade agreement not only creates the world's largest trade region, it also creates one of the world's fairest trade region.

New England is blessed with it's proximity to Canada, where similar economies, natural resources, and culture all help cultivate a fertile trade.

But the potential of NAFTA has only begun to be explored, said Fernando Hanhausen, a trade specialist for the Massachusetts Office of International Trade and Investment. For New England, the single biggest trade frontier in the world right now is Mexico.

PIECES OF THE PIE

Canada stands out as a top international market for New England manufacturers by any measure but growth, says the trade report "Northeast Exports 2002," prepared by MISER, (available at www.wisertrade.org). Canada is the number one export market by dollar volume for all six New England states and it takes more than twice the amount of exports as the region's next market, Japan. On the down side, it was New England's top loss market in both 2002 and 1998-2002.

Despite the decade of growing exports, New England exports to Canada declined between 1999 and 2002 – a reflection of how closely the Canadian economy is tied to the U.S. economy. As the U.S. slipped into recession, trade volume declined. With a rebounding U.S. economy and the lower U.S. dollar, exports to Canada are also beginning to rebound. And there's room for more trade with our northern neighbor. According to "Northeast Exports 2002," there are several sectors where New England has the potential to increase exports to Canada: turbojets, oscilloscopes and spectrum analysis equipment, office-machine parts, hormones and steroid derivatives, electrical switching apparatus and power-supply components, paper and paperboard, and insulated wire and fiber-optic cable.

From this northern perch, it's easy to overlook the other NAFTA partner, Mexico. New England's trade with Mexico increased nearly 24 percent between 1998 and 2002, making it one of New England's top-ten trading partners. "Northeast Exports 2002" says Mexico has the most growth potential of any foreign market in the world for New England exports.

THE SOUND OF GROWTH

Despite Perot's predictions, that sound you hear from south of the border is the music of a growing, developing economy.

"NAFTA has played a fundamental role in expanding and modernizing the Mexican economy," says Edmundo Gonzales, a trade-specialist with the Bancomext Financial Representative Office and Trade Commission of Mexico in New York, "because it not only boosted trade with the U.S. but also has helped Mexico to put in place enduring transformations towards its modernization."

Mexico's transformation, Gonzales says, include electoral reform that has transformed Mexico into a fully democratic country, the autonomy of the central bank, the protection of foreign investment and intellectual property rights (provisions included in NAFTA.) The results include foreign investment of $130 billion over the last ten years. While 60 percent was investment by US companies, significant portions came from European Union countries hoping to reap the rewards of being part of NAFTA.

Gonzales says that companies invest in Mexico for lower labor costs from a large skilled and semi-skilled workforce;

INTERNATIONAL TRADE *Tips*

1. Be honest about your capabilities in terms of product, pricing and commitment to develop a market;

2. Evaluate whether competitors are already present in the market or if there is a definable demand for your product or service. Local production is also something that needs to be evaluated;

3. Companies with an experienced international sales representative are much more successful than companies without. Not having this person is not a sine-qua-non impediment, but success requires an open mind willing to understand that business will not be conducted in exactly the same manner as in the US.

4. A trip to the country to meet potential buyers is critical. Expecting a call from a foreign buyer can happen, but this is not the proactive attitude required for a solid exporter.

5. Customs issues and logistics are very straight forward except for products requiring permits, including foods, pharmaceuticals, toys, footwear and a few others. Your local trade office can help you understand any special permits your business might require.

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a large base of suppliers supporting industries such as automobiles, electronics, metal mechanics; a growing domestic market; and the large network of free-trade agreements that Mexico has with other trading partners.

According to "Northeast Exports 2002," the sector specialties in New England that offer significant opportunity for increased trade with Mexico abound. They range from electronic equipment and components to medical equipment and supplies, aircraft and automobile parts and accessories, and manufacturing equipment and parts.

Mexico's untapped markets need products that are as simple as razor blades and ball bearings, as humble as plumbing and pipefitting supplies, and as cultural as audio speakers and microphones.

"Consumer demand is growing because people are relying on consumer credit," Hanhausen says. It's a trend spurred by lower interest rates and inflation.

A good indicator of the opportunity comes from Home Depot, the Atlanta-based building supply giant. Home Depot recently moved into Mexico, quickly dominating the $15 billion building-supply market.

Hanhausen says that Mexico's trade numbers—at least with Massachusetts—are undercounted. "There are a large number of tangible products that cannot be accounted as exports," he says. "If you have a patent or a pharmaceutical formulation which you are not manufacturing [but that is being manufactured in Mexico,] you are receiving revenue without 'generating' a direct export." This uncounted trade can be significant for many New England industries that specialize in either intellectual properties or services; and it is provided for under the provisions of NAFTA.

If you own a small to mid-sized business looking for growth opportunity, exploring trade opportunities with Canada and Mexico should top your to-do list.

HOW TO JUMP IN

If you own a small to mid-sized business looking for growth opportunity, exploring trade opportunities with Canada and Mexico should top your to-do list. Start with a call to your state's international-trade office. Though the specific services vary from state to state, your local trade office can help with market research and identify what markets are appropriate for your company, help you find the best way to go about entering the market, help with documentary regulations and technical standards, and even introduce you to trading partners essential to making it all happen.

Wade Merritt, a trade specialist with the Maine International Trade Center, says: "A hard sell doesn't work. A better approach is trying to find a partner." As an example, he sites Maine and New Brunswick, which have similar economies and resources. But Maine has invested heavily in wood-composite technologies, and New Brunswick hasn't. This creates the perfect opportunity for companies in the two regions to form strategic relationships.

"You have to build relationships," Merritt says. "They want to know about your family, they want to take you out to dinner, they want to get to know you as a person first. In that way, New England companies have an advantage, it feels natural and comfortable to us. We like deals done on a handshake."

Both NAFTA partners seek investment from U.S. trading partners. Just like the economic development activity in your local community, there are a host of incentives offered to investors funded through federal, state, and local monies, which may be worth investigating.

Gonzales says that Mexico is trying to encourage economic development and investment in the southeast part of Mexico —a region that has not benefited from NAFTA the way northern and central Mexico have due to its distance from the U.S. border. "We have a program that is called 'Marcha hacia el Sur' (Going to the South), where the federal government provides [investing companies] with certain amounts of money based on the jobs created." From the perspective of shipping via sea, this region may well prove the most lucrative for New England companies.

When it comes to trade agreements, the devil's in the details. With a decade's experience, the U.S., Canada, and Mexico are ironing out the wrinkles in NAFTA. Ricardo DelCastillo, a trade policy officer with Canada's International Trade Office, says the three NAFTA partners are working to simplify the rules of origin and to make it simpler to add services and professions to NAFTA as new industries and areas of expertise emerge.

The rules of origin specify the portions of a product that must originate in North America, and how a products origin should be documented. This becomes more and more difficult in a global economy, it's inevitable that the components for a product might come from all over the world. "In many cases," DelCastillo says, "small companies pay the tariff so that they don't have to use the NAFTA rules-of-origin certification because it's so complicated."

The NAFTA partners are also trying to change the way new professions are added and deleted from the treaty. "There are jobs in the technical sectors that didn't even exist ten years ago," DelCastillo says. "Right now, we have to amend the treaty to add and delete professions." That means the treaty must go before all three governments, including the US Congress, for approval. "We're trying to find a way to do things that is simpler, so that NAFTA can benefit more companies and more people in trade and investment."

Developing the skills to successfully trade with Canada and Mexico may have a big payoff in the next few years. The U.S. government is about the sign a trade agreement with the Dominican Republic, and negotiating agreements with Panama; the three Andean countries of Peru, Ecuador, and Columbia; and the Central American Free Trade Agreement. But the vision is greater still—a free-trade region encompassing the entire Western Hemisphere called the Free Trade Area of the Americas. Given the cultural similarities that Mexico shares with many Central and South American countries, Northeastern business that learns to trade effectively with Mexico will be poised to enter a $14 trillion market comprised of 200 million people in 34 countries—many of them developing countries. It's a wealth of opportunity to great to be ignored.